

**Logan County Rural Water District No. 2
Crescent, Oklahoma**

Financial Statements and
Reports of Independent Auditor

July 31, 2023

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

Broken Arrow, Oklahoma

**Logan County Rural Water District No. 2
Crescent, Oklahoma**

Board of Directors

July 31, 2023

Chairman

Diane Frick

Vice Chairman

Robert Carey

Secretary/Treasurer

Mark LeMarr

Members

Dennis Datin

S.R. Hunter

Karen Katilus

Thomas Trello

System Manager

Cody Bengé

Operator

Donnie Emery

Bookkeepers

Heather Pierson

Kathy Terry

1701 N. Hwy 74
Crescent, Oklahoma 73028
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Crescent, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Logan County Rural Water District No. 2
Crescent, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Logan County Rural Water District No. 2, Crescent, Oklahoma (the District), as of and for the year ended July 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of July 31, 2023, and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the

financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The prior year “memorandum only” comparative information and the supplementary information on page 20 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2023 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

September 11, 2023

LOGAN COUNTY RURAL WATER DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2023

Our discussion and analysis of the Logan County Rural Water District No. 2's financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2023. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's operating revenue exceeded operating expenses by \$236,761 in the 2022-23 fiscal year, an increase of \$2,256 over the prior year.
- Overall, the District's cash and cash equivalents decreased by \$107,445 in the 2022-23 fiscal year, primarily due to capital asset purchases and general increases in expenditures when compared to the prior year.
- The District continued to pay on a \$920,000 OWRB Note for water system improvements, and a lease-purchase agreement for \$105,468 for radio read meters. The District also continued to pay on the promissory note that was issued in the previous fiscal year with Community State Bank for \$490,000 for a new water tower.
- The District increased water rates in August 2022.
- The District's membership increased slightly from 574 to 605 members at the end of the fiscal year.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net position and the changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Net Position, and Changes in Net Position

The District's Net Position was higher in 2022-23, increasing from \$1,855,798 to \$1,982,335. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

Table 1 – Net Position:

	<u>2022-23</u>	<u>2021-22</u>	<u>Variances</u>
Current and other assets	\$ 693,998	822,496	(128,498)
Capital assets, net	<u>2,007,602</u>	<u>1,846,977</u>	<u>160,625</u>
Total Assets	<u>\$ 2,701,600</u>	<u>2,669,473</u>	<u>32,127</u>
Current liabilities	\$ 85,350	103,358	18,008
Long-term liabilities	<u>633,914</u>	<u>710,317</u>	<u>76,403</u>
Total Liabilities	<u>\$ 719,264</u>	<u>813,675</u>	<u>94,411</u>
Invest. In capital assets	\$ 1,297,285	1,062,448	234,837
Unrestricted	<u>685,051</u>	<u>793,350</u>	<u>(108,299)</u>
Total Net Position	<u>\$ 1,982,336</u>	<u>1,855,798</u>	<u>126,538</u>

Net Position of the District increased by 6.82 percent (\$1,982,336 compared to \$1,855,798). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$793,350 to \$685,050.

Table 2 – Changes in Net Position:

	<u>2022-23</u>	<u>2021-22</u>	<u>Variances</u>
Revenues:			
Charges for services	\$ 758,769	699,174	59,595
Interest	1,030	470	560
Total Revenues	<u>759,799</u>	<u>699,644</u>	<u>60,155</u>
Expenses:			
Salaries, taxes and benefits	226,680	205,715	(20,965)
Contract services	0	3,340	3,340
Maintenance, repairs & supplies	107,276	95,983	(11,293)
Chemicals & testing	54,153	55,459	1,306
Other expenses	133,899	104,172	(29,727)
Depreciation	91,582	80,390	(11,192)
Interest on debt	19,671	16,673	(2,998)
Total Expenses	<u>633,261</u>	<u>561,732</u>	<u>(71,529)</u>
Changes in Net Position	126,538	137,912	(11,374)
Net Position, Beginning	<u>1,855,798</u>	<u>1,717,886</u>	<u>137,912</u>
Net Position, Ending	<u>\$ 1,982,336</u>	<u>1,855,798</u>	<u>126,538</u>

The District's total revenues increased by 8.6 percent (\$60,155). The total cost of all expenses increased by 12.73 percent (\$71,529).

Capital Assets

At July 31, 2023, the District had \$2,007,602 invested in capital assets, net of depreciation, including land, the water system, equipment, leases and rights. The District added \$252,208 in additional capital assets in 2022-23, which consisted of construction costs for the new water tower and generators.

Long-Term Debt

The District continued to make payments on the \$920,000 OWRB loan. Current monthly payments are \$3,094.72, with accumulated semi-annual payments being made in March and September each year. The outstanding loan balance at July 31, 2023 was \$246,506.

In fiscal year 2021-22, the District entered into a promissory note with Community State Bank for \$490,000 to help finance the new water tower. The note calls for monthly payments of \$3,334.67 starting January 16, 2022. Any unpaid balance as of December 16, 2026 will be paid in full on this date. The outstanding note balance at July 31, 2023 was \$447,342.

The District obtained a lease-purchase agreement for the radio read meters in fiscal year 2017-18, in the amount of \$105,469. At July 31, 2023, the outstanding balance of this note was \$16,469.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending July 31, 2024, the District's budget is fairly consistent with prior years.

As the current economic conditions continue and expenses continue to increase, additional rate increases may become necessary.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office at 1701 N. Hwy 74, Crescent, OK 73028 or call (405) 969-2646.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Logan County Rural Water District No. 2
Crescent, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Logan County Rural Water District No. 2, Crescent, Oklahoma (the District), as of and for the year ended July 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 11, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did identify one deficiency in internal controls that is identified as item 23-1 in the accompanying Schedule of Audit Results. We do not consider item 23-1 to be a material weakness; however, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

September 11, 2023

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Crescent, Oklahoma
Schedule of Audit Results
July 31, 2023

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, which was not considered to be a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

23-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Net Position
July 31, 2023

	<u>July 31, 2023</u>	<u>-Memorandum- -Only- July 31, 2022</u>
<u>ASSETS</u>		
Current assets:		
Cash in bank	\$ 450,134	\$ 644,234
Investments	178,056	91,400
Receivables	44,446	70,016
Prepaid insurance	21,362	16,846
Total current assets	693,998	822,496
Capital assets:		
Water system and improvements	3,494,499	3,242,291
Less: accumulated depreciation	(1,486,897)	(1,395,314)
Total capital assets	2,007,602	1,846,977
TOTAL ASSETS	\$ 2,701,600	\$ 2,669,473
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 8,049	\$ 28,174
Accrued interest	898	972
Current maturities of long-term debt	76,403	74,212
Total current liabilities	85,350	103,358
Long-term debt:		
Capital lease payable, less current maturities	16,469	16,469
Notes payable, less current maturities	617,445	693,848
Total long-term liabilities	633,914	710,317
Total Liabilities	719,264	813,675
 <u>NET POSITION</u>		
Net investment in capital assets	1,297,285	1,062,448
Unrestricted	685,051	793,350
Total Net Position	1,982,336	1,855,798
TOTAL LIABILITIES AND NET POSITION	\$ 2,701,600	\$ 2,669,473

The accompanying notes to the financial statements are an integral part of this statement

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended July 31, 2023

	2022-23	-Memorandum- -Only- 2021-22
Operating Revenues:		
Water sales	\$ 681,233	\$ 632,182
Benefit units	42,000	54,000
Transfer / reconnect / misc fees	35,317	12,992
Reimbursements	219	0
Total revenues from operations	758,769	699,174
Operating Expenses:		
Chemicals	46,059	55,459
Contract services	0	3,340
Dues and licenses	3,211	4,522
Insurance	19,408	21,704
Maintenance and repairs	39,500	9,988
Miscellaneous	10,235	10,459
Postage	4,016	4,498
Professional fees	18,450	2,724
Office supplies	1,849	2,639
Salaries and taxes	226,680	205,715
Supplies	67,776	85,995
Telephone	2,090	1,155
Testing fees	8,094	5,976
Travel and mileage	26,462	14,235
Utilities	48,178	36,260
Total expenses from operations	522,008	464,669
Operating Income (Loss)	236,761	234,505
Non-Operating Revenues (Expenses):		
Interest income	1,030	470
Amortization	(3,707)	(3,796)
Depreciation	(87,875)	(76,594)
Interest paid on debt	(19,671)	(16,673)
Total non-operating revenues (expenses)	(110,223)	(96,593)
Change in Net Position	126,538	137,912
Total Net Position, beginning of period	1,855,798	1,717,886
Total Net Position, end of period	\$ 1,982,336	\$ 1,855,798

The accompanying notes to the financial statements are an integral part of this statement

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Cash Flows
For the Year Ended July 31, 2023

	2022-23	-Memorandum- -Only- 2021-22
Cash flows from operating activities:		
Receipts from customers	\$ 784,339	\$ 673,015
Payments to employees	(226,680)	(191,956)
Payments to vendors	(319,969)	(259,658)
Net cash provided (used) by operating activities	237,690	221,401
Cash flows from capital and related financing activities:		
Loan proceeds	0	490,000
Capital assets purchased	(252,208)	(314,673)
Principal paid on debt	(74,212)	(61,200)
Interest paid on debt	(19,744)	(16,063)
Net cash provided (used) by capital and related financing activities	(346,164)	98,064
Cash flows from investing activities:		
Interest on investments	1,030	470
Net increase (decrease) in cash and cash equivalents	(107,444)	319,935
Cash & cash equivalents, beginning of period	735,634	415,699
Cash & cash equivalents, end of period	\$ 628,190	\$ 735,634
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 236,761	\$ 234,505
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in current assets-		
Accounts receivable, net	25,570	(26,159)
Prepaid expenses	(4,516)	(704)
Increase (decrease) in current liabilities-		
Accounts payable	(20,125)	13,759
Net Cash Provided by Operating Activities	\$ 237,690	\$ 221,401

The accompanying notes are an integral part of the financial statements

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
 NOTES TO FINANCIAL STATEMENTS
 FOR YEAR ENDED JULY 31, 2023

Note 1 – Significant Accounting Policies

Logan County Rural Water District No. 2 (the “District”) was created under the provisions of Title 82, Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 605 users, each entitled to one vote. The Board consists of seven members. The vacant Board seats are elected at the annual meeting, and all officers of the Board (chairman, vice-chairman and secretary/treasurer) are voted and approved at this meeting. The members of the Board serve without compensation.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with Generally Accepted Accounting Principles (GAAP).

Cash

The District’s accounts at July 31, 2023, and are comprised as follows:

Community State Bank, Hennessey, OK	
Operating & Maintenance Checking	\$ 424,690
Community State Bank, Hennessey, OK	
Operating & Maintenance Hi-Fi	84,057
Deposits in Transit	772
Outstanding checks	<u>(59,385)</u>
Total Cash	<u>\$ 450,134</u>

Investments

The District had the following investments at July 31, 2023:

Oklahoma State Bank, Guthrie, OK-	
Certif. of Deposit No. 3201800101 (depreciation)	\$ 89,028
Certif. of Deposit No. 3201800201 (emergency)	<u>89,028</u>
Total	<u>\$ 178,056</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2023

Note 1 – Significant Accounting Policies – cont’d

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers’ acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At July 31, 2023, the District held deposits of approximately \$628,190 at financial institutions. The District’s cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District’s name.

Investment Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk - The District has no policy that limits its investment choices other than the limitations of state law, as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2023

Note 1 – Significant Accounting Policies – cont’d

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

Fair Value of Financial Instruments – The District’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District’s estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years. Included in these assets are the leases, rights and organization expenses of the District, which are being amortized over a 40 year period. Capital asset information for the 2022-23 fiscal year is as follows:

	Balance at Aug. 1, 2022	Additions	Deductions	Balance at July 31, 2023
Capital assets not being depreciated:				
Land	\$ 22,500			22,500
Other capital assets:				
Water distribution system	2,395,388	202,506		2,597,894
Copper plant	365,623			365,623
Buildings and equipment	302,151	49,702		351,853
Leases, rights and organization expenses	156,629			156,629
Total depreciated capital assets	<u>3,209,791</u>	<u>252,208</u>		<u>3,471,999</u>
Total capital assets at historical costs	<u>3,232,291</u>	<u>252,208</u>		<u>3,494,499</u>
Less accumulated depreciation for:				
Water distribution system	1,101,308	65,591		1,166,899
Buildings and equipment	190,643	22,283		212,926
Leases, rights and organization expenses	103,364	3,708		107,072
Total accumulated depreciation	<u>1,395,315</u>	<u>91,582</u>		<u>1,486,897</u>
Capital assets, net	<u>\$ 1,836,976</u>	<u>160,626</u>		<u>2,007,602</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2023

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at July 31, 2023 were \$44,446. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Inventories

The District does not include an inventory amount on its financial statements. All items purchased for inventory are expensed immediately.

Federal Income Tax

The District is exempt from federal and state income taxes.

Note 2 – Accumulated Unpaid Vacation and Sick Pay

At July 31, 2023, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 3 – Long-Term Debt

In September 2009, the District was awarded a loan with the Oklahoma Water Resources Board in the amount of \$920,000. Of this amount, \$239,321 of principal was forgiven, made possible by the American Recovery and Reinvestment Act of 2009. That amount of forgiveness will be classified as contributed capital. The current interest rate for this loan is 3.02 percent, payable over 20 years. The local trustee for the loan is BancFirst, Oklahoma City, Oklahoma. A debt service fund will be used to pay bi-yearly principal payments of \$18,568. A debt service reserve fund will be used to retain a percentage of the loan amount.

The first principal payment was made August 27, 2010. As of July 31, 2023, the outstanding principal balance on the loan was \$246,506.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
 NOTES TO FINANCIAL STATEMENTS
 FOR YEAR ENDED JULY 31, 2023

Note 3 – Long-Term Debt – cont’d

The District has a promissory note in the amount of \$490,020 with Community State Bank, Cashion OK, dated December 16, 2021, for a period of 30 years. The current interest rate on this note is 2.75%. The proceeds were used to finance the construction of a new water tower. The water system and future water revenues are used as security for this note. As of July 31, 2023, the outstanding principal balance on the loan was \$447,342.

The amounts of principal and interest to be paid in future fiscal years (based upon current interest rates) are as follows:

Year Ended July 31,	Principal	Interest	Total
2024	\$ 59,934	17,218	77,152
2025	61,763	15,389	77,152
2026	63,594	13,559	77,153
2027	396,461	6,184	402,645
2028-31	112,096	1,390	113,486
	<u>\$ 693,848</u>	<u>53,740</u>	<u>747,588</u>

The District entered into a lease-purchase agreement in August 2017, in the amount of \$105,469, for 500 radio read meters. This debt is considered long-term debt on the financial statements. A principal and interest payment of \$16,804 is to be made every August on this note, which is to be paid off on August 1, 2024. As of July 31, 2023, the outstanding principal balance on this lease-purchase was \$16,469.

The amounts of principal and interest to be paid in future fiscal years (based upon current interest rate of 3.386%) are as follows:

Year Ended July 31,	Principal	Interest	Total
2024	<u>\$ 16,469</u>	<u>335</u>	<u>16,804</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2023

Note 4 – Subsequent Events

Management has evaluated subsequent events through September 11, 2023, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

LOGAN COUNTY RURAL DISTRICT NO. 2
Schedule of Water Rates and Customers
-Unaudited Information-
June 31, 2023

Water Rates

0 – 1,000 gallons	=	\$21.66
1,001 – 2,000 gallons	=	\$6.99 per 1,000 gallons
2,001 – 3,000 gallons	=	\$7.48 per 1,000 gallons
3,001 – 4,000 gallons	=	\$7.91 per 1,000 gallons
4,001 – 5,000 gallons	=	\$8.38 per 1,000 gallons
5,001 – 9,000 gallons	=	\$9.09 per 1,000 gallons
Over 9,000 gallons	=	\$9.79 per 1,000 gallons

Customers

The District had 605 customers at the close of the fiscal year.

Current membership fee is \$1,500.



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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September 11, 2023

Board of Directors
Logan County Rural Water District No. 2
Crescent, Oklahoma

Dear Board of Directors:

The following section contains the observations and recommendations relayed to management that are immaterial control deficiencies, which we feel need to be communicated to you so that appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material in nature. They are simply observations of some immaterial findings that could evolve into material findings if not addressed or corrected.

Financial Reporting

During our audit, we observed several instances where errors were made with respect to the posting and reporting of financial transactions. Most of these instances were related to expenditures being misclassified in the accounting software. This appears to be a result of the change in accounting personnel and the additional responsibilities required of the accounting personnel related to payroll. For instance, there was a large number of transactions classified as *Miscellaneous Expenses – Other* in the accounting software; however, there were more appropriate account codes in the software for these expenses to be classified. Adjusting entries were made in the audited financial statements to correctly report the transactions and we discussed these matters with District staff while on site. Any time there is a change in accounting personnel for a rural water district, there is risk that some transactions will not be recorded correctly or consistent with previous fiscal years. We recommend that training be provided to ensure that all transactions are recorded appropriately in the software.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

Eric M. Bledsoe

For

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP